THE EFFECTS OF FINANCIAL ACCOUNTABILITY ON THE PERFORMANCE OF NON-GOVERNMENTAL ORGANIZATIONS IN KENYA

BY:

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OCTOBER 2013
DECLARATION

I declare to the best of my knowledge that this is my original work and has not been presented for a degree in this or any other university. To the best of my knowledge and belief, the research project contains no material previously published or written by another person except where due reference is made. No part of this project may be reproduced without prior permission of the author and / or University of Nairobi.

Signature: ___________________________ Date: 5TH NOVEMBER 2013

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DECLARATION BY SUPERVISOR:
This is to declare that this research project has been presented for examination with my approval as the appointed University supervisor.

Signature: ___________________________ Date: 5TH NOVEMBER 2013

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DEDICATION

This research project is dedicated to my family my dad Simon Mwaura, mum Jacinta Nduta, sisters Mercy Wanjiku & Faith Wanjiru; for giving me the invaluable support to concentrate on this research. God bless you all. I thank Almighty God who is my source of all inspiration in allowing me to undertake this project that is too involving in terms of time and resources.
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Achieving success in academics including research projects rides on tremendous contributions from both human and divine support. First of all is the loving care we are accorded by our heavenly father, The Almighty God. He has granted me favor that saw me through course work and research project.

I acknowledge the various scholars and the academic family for providing information and enabling environment in which i have managed to carry out my research project with the intent of enriching what has been studied as well as giving a chance to other scholars to carry out further studies.

To my supervisor Mr. Nganga, whose constant corrections immensely contributed to the shaping of this research project. Your suggestions prompted me back to books several a time over to ensure the success of the project. The whole team of lecturers at UON thank you and may God bless you all. To the JKML librarian and MBA computer lab administrator, i appreciate!

My immediate family members gave me the crucial support I needed in order to concentrate on the research project. Thanks to my work colleagues, classmates and everyone else, thanks and may our loving Heavenly Father continue to guide you in all your endeavors.
# TABLE OF CONTENTS

DECLARATION .................................................................................................................. ii  
DEDICATION .................................................................................................................. iii  
ACKNOWLEDGEMENT ................................................................................................... iv  
LIST OF FIGURES .......................................................................................................... vii  
LIST OF TABLES ........................................................................................................... viii  
LIST OF ABBREVIATIONS ............................................................................................ ix  
ABSTRACT .................................................................................................................... x  
CHAPTER ONE ............................................................................................................... 1  
INTRODUCTION .......................................................................................................... 1  
1.1 Background of the Study ......................................................................................... 1  
1.1.1 Financial Accountability ..................................................................................... 2  
1.1.2 Financial Performance ....................................................................................... 3  
1.1.3 Non-governmental Organizations (NGOs) ......................................................... 4  
1.1.4 NGOs in Kenya .................................................................................................... 4  
1.1.5 Financial Performance in the NGOs ................................................................. 5  
1.2 Research Problem .................................................................................................. 6  
1.3 Research Objective ................................................................................................. 7  
1.4 Value of the Study .................................................................................................. 7  
CHAPTER TWO ........................................................................................................... 9  
LITERATURE REVIEW ................................................................................................ 9  
2.1 Introduction to Literature Review ......................................................................... 9  
2.2 Theoretical Review ................................................................................................ 9  
2.2.1 Resource Mobilization Theory ......................................................................... 9  
2.2.2 Fraud Theory/ Differential Association Theory ................................................. 10  
2.3 Relationship between financial accountability and financial performance .......... 11  
2.4 Empirical Review .................................................................................................. 13  
2.5 Literature Summary ............................................................................................... 14  
2.6 Conceptual Framework ......................................................................................... 15  
CHAPTER THREE ....................................................................................................... 17  
RESEARCH METHODOLOGY .................................................................................... 17  
3.1 Introduction ............................................................................................................ 17  
3.2 Research Design .................................................................................................... 17  
3.3 Target Population ................................................................................................. 17
3.4 Sample Design.................................................................................................................. 17
3.5 Data Collection Instruments............................................................................................ 18
3.6 Reliability and Validity of the Instruments........................................................................ 18
3.7 Data Collection Procedures.............................................................................................. 18
3.8 Data Analysis Procedures ................................................................................................. 19

CHAPTER FOUR .................................................................................................................. 21
DATA ANALYSIS, PRESENTATION AND INTERPRETITION............................................. 21
4.1 Introduction ....................................................................................................................... 21
4.2 Demographics .................................................................................................................. 22
4.3 Financial Accountability ................................................................................................. 24
4.4 Financial Performance ..................................................................................................... 29
4.5 Regression Analysis of the Findings ............................................................................... 33

CHAPTER FIVE .................................................................................................................. 35
SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS ...... 35
5.1 Introduction ....................................................................................................................... 35
5.2 Summary of the Findings ............................................................................................... 35
5.3 Conclusions ..................................................................................................................... 36
5.4 Recommendations ......................................................................................................... 36
5.6 Limitations of the Study ................................................................................................. 38
5.5 Suggestions for Further Research ................................................................................. 38

REFERENCE ..................................................................................................................... 39
APPENDICES ..................................................................................................................... 43
Appendix I: Letter to Respondents....................................................................................... 43
Appendix II: Questionnaire................................................................................................... 44
Appendix III: List of NGO’s ................................................................................................ 48
LIST OF FIGURES

Figure 2.1: Conceptual framework ............................................................................. 15
Figure 4.1: Respondent gender .................................................................................... 22
Figure 4.2: Number of years of experience ................................................................. 24
Figure 4.3: Use of technology on detecting fraud ....................................................... 30
Figure 4.4: Measures of detecting and controlling fraud .......................................... 31
LIST OF TABLES

Table 4.1: Response rate ............................................................................................................. 21
Table 4.2: Respondent gender.................................................................................................... 22
Table 4.3: Respondent age ......................................................................................................... 23
Table 4.4: Level of education .................................................................................................... 23
Table 4.5: Extent of financial accountability ............................................................................. 27
Table 4.6: Ensuring of quality financial reports ......................................................................... 29
Table 4.7: Fraud on performance ............................................................................................... 30
Table 4.8: Financial performance ............................................................................................. 32
Table 4.9: ANOVA ..................................................................................................................... 33
Table 4.10 Coefficients Results ................................................................................................. 34
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ACFE</td>
<td>Association of Certified Fraud Examiners</td>
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<td>AICPA</td>
<td>American Institute of CPAs</td>
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<td>GDP</td>
<td>Growth Domestic Products</td>
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<td>GoK</td>
<td>Government of Kenya</td>
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<td>NGOs</td>
<td>Nongovernmental Organizations</td>
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<td>NGOCB</td>
<td>Nongovernmental Organization Coordination Board</td>
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<td>PwC</td>
<td>PricewaterHouseCoopers</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>VfM</td>
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ABSTRACT

Financial accountability has been one of the most problematic and prevalent issues for business worldwide for a long time. Increase in financial misappropriation and number of corporate scandals had an important impact on understanding and analyzing financial accountability and in turn on audit of the same and its regulation. The growth in finance misappropriation cases indicates that a strong need exists for research approaches that better enable auditors and investigators to detect and prevent potential misappropriation. The study aimed to provide an understanding to the non-governmental. The study objective was to establish the effects of financial accountability on the performance of non-governmental organizations in Kenya. The research design used in this study was descriptive survey. The NGO Coordination Board identifies thirty International NGOs with offices in Nairobi County (see Appendix III). Stratified random sampling design was used to select the sample. Using stratified random sampling design, the researcher selected 52 respondents on whom to conduct the survey. Semi structured questionnaire were used to collect the primary data. Descriptive statistics was employed to analyze the data. The mean score for each attribute was calculated and the standard deviation used to interpret the respondents deviation from the mean. The results were presented on frequency distribution tables, pie charts and bar charts. Here the interest was focused on frequency of occurrence across attributes of measures. A multivariate regression model was applied to determine the relative importance of each of the variable with respect to impact of financial fraud on the financial performance. The study found that the NGOs that applied financial standards in ensuring accountability of finances in the organizations boosted Donor support which resulted in improved performance. The study also established a significant relationship between financial performance of NGOs in Kenya and the independent variable financial accountability. The study finally concludes that taking the independent variables at zero, a unit increase in financial accountability will lead increase in the scores of financial performance in NGOs in Kenya. The study recommends that all NGOs should have policies and procedures established so that; boards and officers understand their fiduciary responsibilities to ensure financials are managed properly and the charitable purposes of the organization are carried out.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial accountability can be defined as the management of the finances of an organization in order to achieve the financial objectives of the organization (Tooley and Hooks, 2009). It broadly embraces two aspects, namely: Financial planning which is a plan to ensure that enough funding is available at the right time to meet the needs of the organization for short, medium or long-term capital. For example how much money is needed to smooth out changes in debtors, creditors and other cash requirements, should a new asset be bought or leased; and financial control which seeks to assess whether the plan put forward meets the objectives of the organization in question. Financial accountability components and techniques commonly practiced by the non-government organisations include, financial analysis, accountability accounting, and capital budgeting (Wilks and Zimbelman, 2004).

According to Kanyinga and Mitullah, (2007) financial accountability includes; Financial reporting and analysis, the nature, frequency and purpose of financial reporting, auditing, analysis and interpretation of financial performance; Working capital accountability non-financial and financial considerations in asset acquisition, quantitative techniques for capital project evaluation, investment hurdle rate determination and handling risk and uncertainty in this context; Financial structure accountability- financial leverage or gearing, accounting to lenders, knowledge of sources and uses of finance, non-financial and financial considerations in financial structure decisions and non-financial and financial considerations in profit distribution decisions; Financial planning and control- financial objectives and targets, cost-volume profit analysis, pricing, financial budgeting and control, and accountability responsibility centers; Financial advice- internal and external sources and types of financial advice and use of public accounting services; Financial accountability- expertise informal and formal education, training and experience in financial accountability, relevant qualifications, and overall financial accountability expertise.

Today globalization is not just affecting giant companies but also non-governmental organisations, which are beginning to recognize the importance of finance systems that can manage multi-lingual, multi-currency requirements (Lee, Ali and Kandasamy, 2008c). National borders are losing their
importance as the multinational corporate world develops at a rapid pace. Ambitious NGOs are expanding internationally, and finance managers working in this multinational environment face increasingly complex issues (PwC, 2009). To be successful, they must understand the challenges and differences of doing business in a foreign country, from differences in international accounting.

1.1.1 Financial Accountability

Viswesvaran (2006), refer to financial accountability as the requirement to provide information to parties both inside and outside the organization. It is the process of identifying, measuring and communicating economic information to permit informed and rational decisions to be made. Accountability refers to the final responsibility for the success or failures of an organization. This final responsibility is usually with the governing body, which delegates this function to the Chief Executive. Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. An organization or an institution is accountable to those who will be affected by its decisions or actions. Since NGOs get most of their funding from donors, accountability for NGOs is usually to the donors, the beneficiaries, the employees and other stakeholders (Wells, 2003).

Lin et al., (2003), state that fiscal or financial accountability is about making sure that funds have been spent as agreed and according to appropriate rules and regulations. Harrison et al., (2011) states that financial accounting is financial responsibility or operational transparency that requires demonstrating how donations to your organization have been used and how effective your organization is in achieving its goals. Koh and Woo (2008) contend that financial accountability is the fiscal or financial honesty and avoidance of fraud that makes sure that money is spent and recorded as agreed and according to appropriate rules and that accurate reports are given to stakeholders in a timely manner. Financial accountability is made by preparing and circulating financial statements or reports to stakeholders. According to Fremont-Smith (2004), financial accountability gives NGOs legitimacy and credibility, contributes to their reputation and adds to their sustainability. Good financial accountability limits fraud and mismanagement. It also empowers beneficiaries and other stakeholders since information is power.
1.1.2 Financial Performance

According to Association of Certified Fraud Examiners (2010), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Lee, Ali and Kandasamy (2008c) assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process. Many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris or overvaluation of managerial capability in the acquisition process.

According to Pincus (2009), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Lee et al., (2008c) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity. Viswesvaran (2006) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Saucier and Goldberg (1996) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.
1.1.3 Non-governmental Organizations (NGOs)

Non-governmental Organization (NGO) refers to an association, society, foundation, charitable trust, non-profit corporation, or other juridical person that is not regarded under the particular legal system as part of the governmental sector and that is not operated for profit – viz., if any profits are earned, they are not and cannot be distributed as such. It normally does not include trade unions, political parties, profit-distributing cooperatives, or churches, which are usually regulated under separate legislation, (The International Journal of Not-for-Profit Law, 2009). Non-Governmental Organizations (NGOs) have played a significant role in the socio-economic development of rural communities in Africa since colonial times. In the post-independence period, and particularly from the 1980s to the present, an increase in NGO activities followed the demonstrated failure of the state. Across the African continent the NGO activities became a credible provider of basic needs services to the urban and rural poor people (Porter, 1993).

NGOs have varied areas of functional operation. In a study conducted by (Smith and Kida, 2003) in Kenya, the following functional areas of operation were frequently mentioned: (1) Capacity building, (2) Advocacy, (3) Education, (4) Water and (5) Humanitarian interventions. A frequency count designed to determine the main areas of operation for NGOs cited the following areas (from highest to lowest): (1) Health, (2) Education, (3) Welfare, (4) Environment, (5) Relief, (6) Informal sector, (7) Water, (8) Population and (9) Agriculture. In developing countries and especially African, the perception of NGOs as service providers is now well established (Wells, 1997). To provide all these services, NGOs have commonly depended on funding from donor agencies, multilateral lenders, charitable institutions, and government ministries for their own administration and for conducting programs.

1.1.4 NGOs in Kenya

The last 20 years have seen a great proliferation of NGOs in most African states, though there is substantial variation in the estimates of actual numbers. In Kenya, a study by Matrix estimated the number of NGOs in 1994 to be well over 500, whereas Fowler’s estimate, for 1987, was at 291 NGOs (Nganga et al., 2003).
Though exact figures are difficult to obtain, Fowler and Matrix concur on annual estimates of funds spent by the NGOs in the late 1980s in Kenya. The total expenditure by non-church NGOs was estimated to be $200-230 M, supplemented by a further $120-150 M spent by the churches. Virtually all these funds originated from outside Kenya. Although the numbers of local and international NGOs are about equal, on average the international NGOs enjoyed twice the level of finance of their local counterparts. Thus the total annual amount spent by NGOs at the end of the 1980s was about $350 M, at a conservative estimate. This substantial volume of funds was equivalent to $10 per capita per year or 2.7 per cent of annual per capita income in 1988 (GoK, 2012).

In the same year, NGO external income brought into the country was equivalent to half the foreign exchange brought in by tourism, a major foreign exchange earner. Globally in 1988, the level of development finance disbursed by NGOs was equivalent to about 13 per cent of official aid. In terms of expenditure, the Kenya Non-profit sectors where NGOs are, accounted for US$270 million in expenditure in 2000 which represents 2.5% percent of the GDP (Nganga et al., 2003).

1.1.5 Financial Performance in the NGOs

According to American Institute of Certified Public Accountants (2011), Value for Money (VfM) is the term used to assess whether or not a NGOs agency has registered a good or bad financial performance. That is, whether it has obtained the maximum benefit from the goods and services it acquires and/ or provides, within the resources available to it. It not only measures the cost of goods and services, but also takes account of the mix of quality, cost, resource use, fitness for purpose, timeliness and convenience to judge whether or not, when taken together, they constitute good value. Achieving VfM may be described in terms of the 'three Es' - economy, efficiency and effectiveness. This is the unit cost and productivity indicators that show the ratio between inputs and outputs. Efficiency means doing the same as before, but with fewer resources in terms of money, staff, space, etc. Efficiency is a measure of productivity, i.e. how much you get out in relation to how much you put in. The efficiency of services such as rent collection may be measured by the cost of the service compared to the rent roll. Efficiency is primarily associated with the process and the best use of resources (also involves the delivery of procurement). It includes whether you get it right first time or whether you have duplication (Viswesvaran, 2006).
This is sub-divided further into three categories: a) Impact which is the output of all these functions either contributes to or influences corporate performance as a whole; b) satisfaction which is how the service is perceived by both senior management (the commissioners, for example, senior decision-makers within the organisation) and those internal staff that use the function (the users, for example, frontline managers and staff); and c) modernisation which is the extent to which the organisation has adopted management practices that would be regarded as being innovative and forward looking (Wilks and Zimbelman, 2004). Efficiency and effectiveness are well understood terms and both are contained in the set of primary and secondary indicators for each function. According to Saucier and Goldberg (1996), Economy aims at minimising the cost of resources (‘doing things at a low price’). Economy basically means doing less with fewer resources that is, making savings. It is the price paid for what goes into providing a service, for example, the cost per hour of staff, the rent per square metre of accommodation etc. It includes taking bulk discounts, using spare in-house capacity instead of buying in resources or looking at cheaper outsourcing solutions.

1.2 Research Problem

Financial accountability has been one of the most problematic and prevalent issues for business worldwide for a long time; however, there has been much more attention and research dedicated to the topic after the scandals such as Enron, WorldCom and others. The 5th Global Economic Crime Survey performed by PwC (2009) reports that fraud remains a pervasive business risk and almost every firm is subject to occupational fraud in their daily business, leading to huge losses for business and society. Increase in financial misappropriation and number of corporate scandals had an important impact on understanding and analyzing financial accountability and in turn on audit of the same and its regulation.

Rose (2007) points out that poor economic management and governance by African Governments resulted in donors shifting their attention and increasing funding to NGOs from the early 1990s. Increased disbursements through NGOs led to the mushrooming of NGOs, who in turn used local community organizations as their entry point for development work at the grassroots. This resulted in proliferation of organizations in the development space; however the growth has been sluggish due to the mismanagement of funds in the NGOs institutions which has led to donors shying away. With many fraud and corruption scandals and individuals abusing disaster relief, donations have
subsequently slowed for many organizations. If this funding was to dry up, it would likely mean that the NGOs would no longer be fiscally viable and would cease to operate (D’Cruz, 2003).

This study investigates the effects of financial accountability on the performance of non-governmental organizations in Kenya. The overall National Development objectives of the NGOs among others include: accelerated economic growth and rising productivity of all sectors, equitable distribution of national income, alleviation of poverty, enhanced agricultural productivity and improved rural urban balance (GoK, 2009). For these goals to be realized all factors of production including NGOs performance must closely be coordinated to optimally harness on their complementary role. NGOs financial impropriety in the country continues to grow with consequential negative effect on NGO earnings, loss to public and investor confidence as well as underperformance (Porter and Gowthorpe, 2004).

The growth in financial misappropriation cases indicates that a strong need exists for research approaches that better enable auditors and investigators to detect and prevent potential misappropriation. The study aimed to provide an understanding to the non-governmental organizations of the financial malpractices in the financial process and its resultant impact on the delivering of services to the general population. As proved in literature review, there was lack of non-governmental sector financial accountability within NGO’s which often leads to poor service delivery. The Question one therefore asked was how effective financial accountability was on the performance of non-governmental organizations in Kenya.

1.3 Research Objective

The study objective was to establish the effects of financial accountability on the performance of non-governmental organizations in Kenya

1.4 Value of the Study

The study draws importance in the way it provides new knowledge in the field of finance and accounting, as it provides diversity in the many possible effective ways of financial control mechanisms, highlighting the cogency of adopting this form of operation.
The study was instrumental to the non-governmental organizations in generating knowledge on the financial malpractices in non-governmental organizations. This will also provide a feedback to the non-governmental about the effectiveness of the financial systems in fighting for the public interest in non-governmental operations and the problems faced in enhancing financial discipline in government financial systems.

It is practically hoped that the study will provide an understanding to the non-governmental organizations of the financial malpractices in the financial process and its resultant impact on the delivering of services to the general population.

It is anticipated that the recommendations of this study will make a significant contribution to the researchers and scholars of accounting and finance on the understanding of the factors that influence and shape the effectiveness of financial practices in guarding against misappropriation of funds and resources and the needed remedies for enhancing the effectiveness of the financial systems in the administration of finance discipline in the financial process.

The study also stimulates and encourages further research and inquiry on ways in which financial fraud can be detected early in order to enhance financial discipline so that Non-Governmental funds and resources can be efficiently and effectively used.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction to Literature Review

This chapter presented a review of theory as well as literature of the study in the research area under discussion. This chapter also seemed to identify the research gap that existed between what other researchers had done and what this study aimed to tackle as well as capture the relationship of the research variables.

2.2 Theoretical Review

The study is anchored by Resource Mobilization Theory and Fraud Theory also known as Differential Association Theory which is related to financial accountability and financial performance.

2.2.1 Resource Mobilization Theory

In voluntary organization /NGO /NPO, of all the resources required, a resource in the form of ‘money’ is the most important one. Without this resource we cannot activate the other resources in the agency / community. In the market oriented economy like ours, it is the monetary resource, which determines the expansion or contraction of other resources. The success of any NGO / community organization agency lies in its ability to raise enough funds (monetary resources), or to convert other resources in such a way that it can be exchanged for the money, or to plan its activities into fundable projects (Tam and Kiang, 1992).

In the earlier days when ‘Alms Giving’ and charity was held a high and respected place, the persons who were concerned with community affairs, were able to collect the necessary funds from the wealthy people. But at present the motives behind giving charity as well as the dimensions of the community problems have drastically changed. The resultant effect is that the resources are drying. At the same time more and more money is required for welfare services of meeting the changing needs and adopting better methods of helping the people. To get over this crisis, Neocleous (2000) points out that either the state aid is to increase or the agencies have to depend largely upon the
community’s support. It is not possible to step up the aid from the Government. This necessitates a change in our outlook and we should think of more suitable ways and means of raising money from the public.

In resource mobilization theory, Mobilization is the process of forming crowds, groups, associations, and organizations for the pursuit of collective goals. Organizations do not "spontaneously emerge" but require the mobilization of resources Resource mobilization is a sociological theory that forms part of the study of social movements. It stresses the ability of movement's members to acquire resources and to mobilize people towards the furtherance of their goals. In contrast to the traditional collective behavior paradigm that views social movements as deviant aberrations, resource mobilization which emerged in the 1970s views social movements as formed by rational social institutions and social actors taking political action (Lin et al., 2003).

2.2.2 Fraud Theory/ Differential Association Theory

Researchers and practitioners in different fields that involve the study of fraud acknowledge three key factors associated with the probability of whether an individual will commit fraud. The three factors, which constitute the fraud model, are perceived pressure facing the person, perceived opportunity to commit fraud, and the person's rationalization or attitude. The fraud model has its roots in the research and classical differential theory of noted criminologist Harrison et al., (2011). According to Cressey (1973), dishonest employees will infect honest employees. A non-sharable financial need affects the behaviour of one who violates a trust to commit fraud. What is deemed non-sharable is in the eyes of the offender. These "nonsharable" needs are divided into six basic types: violation of ascribed obligations, problems resulting from personal failure, business reversals, physical violation, status gaining, and employer-employee relations (Cressey, 1973). Cressey's model helps explain the nature of many, but not all occupational offenders.

According to Fremont-Smith (2004) the elements of fraud are as follows: false representation of a material fact; and representation made with knowledge of its falsity. According to an editorial of Fremont-Smith (2004) it was reported that increased time pressure has led independent auditors doing shopping in their audits. As Harrison et al., (2011) pointed out; management fraud represents one instance of the agency problem where managers are interested in increasing their own wealth
at the expense of the shareholders. Eigen (2002) have argued that the dishonest behaviour of management between January 2001 and June 2002 caused share prices of Enron, Global Crossing, Adelphia, Pergrine Systems, Qwest, WorldCom, Dynegy, and Tyco Inter to fall; ranging from 78.4 to 99.9 percent.

Regarding the fraud prevention role and who should assume it, is a thorny issue. Internal audit and management as well as the Board of Directors and the audit committee Code of Corporate Governance has a role to play. As far as the role of the audit committee is concerned, according to Brinkmann and Henriksen (2002), it improves the capacity of the board to act as a management control by providing them with detailed information and knowledge on the financial statements. As Fanning and Cogger (1998) has stated, the Board of Directors assumes internal monitoring, and their viability is enhanced by having independent non-executive directors on the Board. However, fraud prevention and detection is a role that ought to be jointly accepted by the Board, senior management and internal auditing.

2.3 Relationship between financial accountability and financial performance

According to Lee and Ali (2008) there is a strong relationship between financial accountability and financial performance. This is because financial accountability improves financial performance; the goal of financial accountability is to improve performance, not to place blame and deliver punishments. Systems of budget reporting have been established with the accounting for NGO expenditures and the provision of information on performance for use by implementers, managers and politicians. The mismanagement and embezzlement of funds by the officials of the non-governmental organizations have contributed to poor financial performance. Jones (2009) argues that for financial accountability to be effective, action should be taken upon institutions, which render inadequate financial accountability. There may be a functioning financial system, but due to information asymmetries or social polarization, the outcomes may still be biased against the poor.

Humphrey (1993) sights an example of contracts and financial accountability in developing nations where the local community has the authority to verify work done before payments are effected on every phase completed. This has ensured quality work done and reduced ‘Ghost’
contractors. The wide range of cost estimates itself hints at an insufficient level of financial accountability in these programs, while also provoking the important question of what society is receiving as a return on its substantial investment in the regions. Effective financial accountability to non-governmental organizations requires that NGO staff support their departments through their actions, advice and information (Baron et al., 2007). Effective and useful financial accountability measures must be unambiguous, either monotonically increasing or decreasing measures of either costs or benefits.

To ensure financial accountability, the compliance model requires that every step of the non-governmental organizations financial process be thoroughly documented (Batley, 2006). Formulators and overseers of policy are “principals” who delegate the task of actual implementation of policy to subordinates, or “agents.” Principals and their agents are assumed to have more or less diverse, even divergent preferences and goals for policy implementation. At the extreme, some rational-choice theorists contend that agents will tend to “shirk” the implementation work, “subvert” the policy goals of their principals in order to further the agents’ own purposes, and even “steal” whatever program resources they can. To solve this “agency problem,” the designers and overseers of policy need to operate a financial accountability system that will mitigate the supposed tendency of subordinates to shirk, subvert, and steal. The “agency problem” is essentially a financial accountability problem (Bosch, 2002). The operators who actually deliver financials to people might not do so in the proper way if left to their own devices, therefore non-governmental organizations must design a system to compel their proper behavior or force them to account for improper behavior (Gibelman and Gelman, 2002).

According to Moyes et al., (2006), financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. Australian Accounting Research Foundation (1990) stated that it is important for financial reports to be relevant. They must have value in terms in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. Understandability is the ability of users to understand the financial reports. This will depend in part on their own capabilities and in part on the way in which the information is
displayed. Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them. According to Borman (1991), poor quality of financial reports greatly diminishes the quality of NGOs. Quality information is one that is readable, reliable, comparable, consistent, complete, timely, decision-useful, accessible and cost effective. The integrity of the nonprofit sector is served best if NGOs are accountable.

Although both agency and stewardship theories offer a lens for understanding financial accountability, they are based on fundamentally different assumptions about human behavior. Green and Calderon (1996) has pointed out ultimately, if one wishes to complete the performance information loop completely, one must not only demonstrate good results, but also that they are the result of what non-governmental organizations are doing. Financial accountability measures are an attempt to assert more direct NGO control over the financial projects. They are primarily concerned with resource allocation and fiscal efficiency. While it is completely appropriate for those who pay the bills taxpayers, and donors to evaluate critically what they get for their money from NGO projects.

2.4 Empirical Review

There have been prior studies conducted which aimed at examining the effects of financial accountability on the performance of non-governmental organizations in Kenya. This study fits into the framework of these studies and contributes to extant literature. For the purposes of this study, it is useful to categorize them in relation to their concept, scope, approach and findings.

Koornhof and Du Plessis (2000) took an empirical approach to assessing the usefulness of the annual report as a mechanism of accountability. Koornhof and Du Plessis (2000) analysed the annual report of Chief Constable for 22 years and found out that for the annual report to be the principal means by which an authority is held to account, it must contain improved measures of performance. Earlier in 1991, Kanyinga and Mitullah (2007) surveyed three user groups to find out what they wanted in financial reports. Their study showed that the inclusion of performance information (five or ten year trend) was desirable and would shed more light on the performance of NGO sector organizations. Moyes and Hasan (1996) also echoed this view when they used the
content analysis technique to analyse 18 government agencies annual report. Their study revealed that the disclosure for accountability in terms of evidence of reporting to stakeholders on performance purposes appeared to be lacking. The above results were also supported by Ones and Viswesvaran (1996) when they verified that performance information apart from financial statements was of more importance.

Saucier and Goldberg (1996) studied the annual reports of Italian local governments by using a checklist developed on the basis of literature on disclosure and accountability indices. Later, Ugrin and Odom (2010) extended their study to include federal government and 10 analysed the annual report of 56 government departments using the content analysis technique and a disclosure index. Their study revealed that there were lower levels of mandatory disclosures than voluntary.

Similarly, Mack and Ryan (2007) also studied local government departments but extended their study to include government-owned corporations. In their study, a survey instrument was used to find out the actual users of annual report and their information needs. They found out that the annual report was not the most important source of information. Tooley and Hooks (2009) analysed the annual report of 37 schools in Queensland. In their study, they found that the annual report though useful, had an overemphasized role as a source of information in discharging accountability. They also found that accountability may be discharged more effectively through other media other than the annual report since respondents relied on alternative media such as newsletters and other forms of discussions and interviews. While the above related research on the role and usefulness of the annual report in discharging accountability has been international in focus, there has been little evidence from Non-Governmental Organisations (NGOs) in developed and developing countries especially those in the Sub-Saharan region.

2.5 Literature Summary

Most of the existing studies, with few exceptions (Ryan and Ng 2000; Mack and Ryan 2007) focused on single sources of data. This study however adopts a triangulated approach by analyzing the information in the annual reports and semi structured questionnaires. These help to confirm the findings resulting from the annual report and also reveal insights which the analysis could not show and vice versa. This study addresses the above mentioned gaps through an examination of financial accountability and financial performance of NGOs.
Following the above literature review, it is evident that the above authors and writers do not close the gap between the financial accountability and performance of the NGO sector. Further, most of the literature about the study variables is for the public sector and still in the developed world. Therefore, this study will provide findings that tend to confirm this literature and to some extent close the gap between the study variables.

2.6 Conceptual Framework

A conceptual framework is a diagrammatical research tool intended to assist the researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. A conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea or thought. It can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The interconnection of these blocks completes the framework for certain expected outcomes.

An independent variable is one that is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent a problem requiring explanation in an analysis, but are taken simply as given. The independent variables in the study will be: financial accountability.

A dependent variable is what is measured in the experiment and what is affected during the experiment, it responds to the independent variable. The dependent variable in the study will be financial performance.

**Figure 2.1: Conceptual framework**

![Conceptual Framework Diagram](image)

**Independent Variables**
- Funds disbursement
  - Timing
  - Adequacy
- Monitoring
  - Frequency
  - Reports

**Financial accountability**

**Financial performance**
- Financial
- Non-financial

**Dependent Variable**
This conceptual framework is developed from the organizational improvement models of Judge et al., (2002). It hypothesizes that with adequate and timely funding, proper monitoring and accountability systems, financial performance is likely to significantly improve. According to Albrecht et al., (2001) effective and continuous monitoring of activities guarantee optimal utilization of resources through effective accountability while also ensuring effective sharing of correct and timely information and the identification and resolution of conflicts.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to collect data for the study. It covered the research design, the target population, data collection instruments and procedures.

3.2 Research Design

The research design used in this study was descriptive survey. The researcher chose this research design because the study aims at collecting information from respondents on their attitudes and opinions in relation to the effects of financial accountability on the performance of non-governmental organizations.

3.3 Target Population

According to Cooper and Schindler (2000), a population is defined as the total selection of elements about which the researcher wants to make some inferences. The NGO Coordination Board identifies thirty International NGOs with offices in Nairobi County (see Appendix III). This was the study population though a convenient sample which was taken based on sampling design represented the rest of the organisations. The study surveyed the Management team and Accounting practitioners of the sampled organisations.

3.4 Sample Design

Stratified random sampling design was used to select the sample. This choice was made because it gave each item in the population an equal probability of being selected. A quota of 30% was established for each stratum in from the NGOs. Using stratified random sampling design, the researcher selected 52 respondents on whom to conduct the survey. A table of random Numbers was used to select the individual respondents for the study.
Table 3.1 Sample Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Accessible population</th>
<th>Sample representation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Finance officers</td>
<td>120</td>
<td>36</td>
</tr>
<tr>
<td>External auditors</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>173</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

3.5 Data Collection Instruments

The researcher used a questionnaire. Semi structured questionnaire were used to collect data. The closed ended questions were used for easy coding and analysis while the open ended questions were used to elicit more information from respondents to complete any missing links. The questionnaire had items that aimed at answering the study questions and it met the research objectives. The choice of this tool of data collection was guided by the time available and the objectives of the study. Questionnaires provided a high degree of data standardization and adoption of generalized information amongst any population.

3.6 Reliability and Validity of the Instruments

In order to ensure validity and reliability, the questionnaires composed of carefully constructed questions to avoid ambiguity and in order to facilitate answers to all the research questions. The questionnaire was then pre-tested in a pilot study through a sample of 2 top management, 2 finance officers, 2 external auditors to avoid respondent contamination (Kothari, 2007), after which corrections and adjustments were done; this ensured reliability. The validity of the research instrument was then tested for internal consistency by use of Cronbach’s Alpha with a 70% acceptance level.

3.7 Data Collection Procedures

The respondents were required to complete questionnaire as honestly and as completely as possible. The researcher used assistants to distribute by hand the questionnaires to the selected respondents. On completion, the research assistants collected the questionnaires and ensured high
completion rate and returned of the completed questionnaires. The researcher used drop and pick method so as to give the respondents enough time as possible to fill the questionnaire.

3.8 Data Analysis Procedures

Analysis of data was done in order to answer the research question of this study. Data collected was sorted, classified and coded then tabulated for ease of analysis. The data was summarized and categorized according to common themes. The SPSS (version 17) computer software aided the analysis as it was more users friendly and most appropriate for analysis of Management related attitudinal responses (Newton and Jeonghun, 2010). Descriptive statistics was employed to analyze the data. The mean score for each attribute was calculated and the standard deviation used to interpret the respondents deviation from the mean. The results were presented on frequency distribution tables, pie charts and bar charts. Here the interest was focused on frequency of occurrence across attributes of measures.

3.8.1 Measurement of Variables

In this study, the measurement of variables was done individually. This study has one independent variable and one dependent variable. The independent variable was financial accountability level, while the dependent variable was financial performance.

a) Financial Accountability

This was measured by identifying its attributes such as rules, procedures & regulations and the extent to which they are applied in Financial Management. These were measured in terms of the degree of divergence between the accepted standards and the actual prevailing practices. Therefore, to test perceived accountability a set of statements were used and applied to a five-point likert scale ranging from 5 Very great extent, 4 Great extent, 3 Moderate extent, 2 Little extent and 1 No extent.

b) Financial Performance

This was measured using the three indicators of Value For Money (VFM) a good measure for financial performance in the non-governmental sector. That is, economy, efficiency, and effectiveness. Therefore, to test financial performance the researcher devised for each measure a
set of statements to test the perceptions of the respondents, using a five-point scale from very great extent to very low extent.

3.8.2 Regression Analysis

A multivariate regression model was applied to determine the relative importance of each of the variable with respect to impact of financial fraud on the financial performance.

The regression model used was as follows:

\[ y = \beta_0 + \beta_1 X_1 + \epsilon \]

Where:
- \( Y \) = financial performance
- \( \beta_0 \) = Constant Term
- \( \beta_1 \) = Beta coefficients
- \( X_1 \) = Financial accountability
- \( \epsilon \) = error term

The data was entered into the Statistical Package for Social Sciences (SPSS) and analysed using descriptive, correlation and regression analyses. The correlation coefficients from the regression showed the effect (whether positive or negative) of the independent variables on the dependent variable.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the effects of financial accountability on the performance of non-governmental organizations in Kenya. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likert scale.

4.1.1 Response Rate

The study targeted to sample 52 respondents in collecting data with regard to the performance of non-governmental organizations in Kenya. From the study, 37 out of 52 sampled respondents filled in and returned the questionnaire contributing to 71%. This commendable response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires.

Table 4.1: Response rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>37</td>
<td>71</td>
</tr>
<tr>
<td>Not responded</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Survey Data (2013)*
4.2 Demographics

4.2.1 Respondent Position

The study aimed at investigating respondents position in the NGOs, according to the findings 70% who were the majority were finance officers, 19% were top management and 11% were external auditors. The findings show that the targeted departments were well presented in the study.

Table 4.2: Respondent position

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>Finance officers</td>
<td>26</td>
<td>70</td>
</tr>
<tr>
<td>External auditors</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2013)

4.2.2 Respondent Gender

Figure 4.2: Respondent gender

Source: Survey Data (2013)

The study aimed at investigating the respondent’s gender, 57% who were the majority were male while 43% were female. The findings show that gender parity was observed in the study.
4.2.3 Respondent Age

Respondents were asked to indicate their age 32% who were the majority were between the age of 31 to 40 years, 27% were between the age of 41 to 50 years, 19% were between the age of 25 to 30 years, 14% were between the age of 51 to 60 years while 8% were between the age of above 60 yrs. This shows that the respondents were mature and could answer questions to the study appropriately.

Table 4.3: Respondent age

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25- 30 years</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>31- 40 years</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>41-50 years</td>
<td>10</td>
<td>27</td>
</tr>
<tr>
<td>51-60 years</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Above 60 yrs</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2013)

4.2.4 Level of Education

On the respondents level of education the study found that 51% who were the majority had university degree, 41% had post graduate, 8% had college diploma while the study found that there was no respondent who had only reached primary or secondary level. This shows that the respondents were well educated.

Table 4.4: Level of education

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Secondary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>College Diploma</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>University Degree</td>
<td>19</td>
<td>51</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>15</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2013)
4.2.5 Number of Years of Experience

**Figure 4.2: Number of years of experience**

![Bar chart showing the number of years of experience](chart.png)

*Source: Survey Data (2013)*

On investigating the number of years of experience in the NGO sector, 57% who were the majority had worked for a period between 6 to 10 years, 32% had worked for a period between 1 to 5 years, 8% had worked for a period below 1 year and 3% had worked in the sector for above 10 years. This is a clear indication that all the respondents had stayed in their respective NGOs for a period of time hence they were conversant with how the NGOs operated financially.

4.3 Financial Accountability

4.3.1 Financial Standards Applied

Respondents were asked describe extent of which the NGOs applied financial standards in ensuring accountability of finances in the organizations. According to the respondents the financial manuals are reviewed and given to all directors and officers, trustees, employees and volunteers to confirm authenticity of the records. The procedure cited by the respondents included: preparing an annual income and expense budget and periodic reports at least monthly by comparing actual receipts and expenditures to the budget with timely variance explanations; writing and signing cheques or vouchers and receiving, recording, securing and depositing cash and other receipts. These procedures ensured that no single individual was responsible for receiving, recording and
depositing funds or writing and signing cheques besides the authorised persons. Checks and balances were ensured to make embezzlement more difficult; the NGOs ensured that grants and contributions received were properly recorded, accounted for as required as a condition of any grant were completed and restrictions on the use of such funds, such as contributions given for a restricted purpose (examples given included; building fund and scholarships) and prohibitions on the use of the principal of an endowment, were obeyed; requisitioning, authorizing, verifying, recording and monitoring all expenditures, including payment of invoices, petty cash and other expenditures. These procedures ensured that no single individual was permitted to request, authorize, verify and record expenditures these functions were assigned to different individuals.

Respondents also pointed out that the accessing, inputting and changing of electronic data was maintained by the top management only preserving electronic records and ensuring data compatibility when systems change and creating an appropriate records retention policy were part of this process. Accountability was also ensured by provision of regular oversight by an audit committee or, if there is no audit committee, by the executive committee or by the board of directors itself. Reporting to the audit committee or board by employees and volunteers of allegations of fraud or financial improprieties was encouraged at all times. The NGOs also ensured that there was timely and appropriate financial reports distributed to all directors and that all officers reviewed them, as well as the president, chief executive officer, treasurer and chief financial officer.

4.3.2 Extent of Financial Accountability

The study aimed at establishing financial accountability with given statements which was found to be to a moderate extent as shown by a mean score of 3.071111 in that; the respondents NGO prepared regular financial reports for the benefit of stakeholders was to a great extent as shown by a mean score of 4.5600, the NGO’s annual financial reports demonstrated financial accountability and stewardship was to a great extent as shown by a mean score of 4.3200, the management of the NGO produced balance sheets to show the financial position of the NGO was to a great extent as shown by a mean score of 3.9733, there being many queries about the financial reports prepared by the respondents NGO was to a moderate extent as shown by a mean score of 3.4133, the annual financial statements of the NGO showed a clear picture of the resources entrusted to them and how
they have been used during the year was to a moderate extent as shown by a mean score of 3.1067, the management of the NGO regularly produced cash flow statements to show the organization’s projected cash inflows and outflows was to a moderate extent as shown by a mean score of 3.1067, the staff of the NGO submit reported for business advances in a timely manner was to a low extent as shown by a mean score of 2.0933, in their reporting to stakeholders the management of the NGO supplemented the financial reports with other non-financial reports was to a low extent as shown by a mean score of 1.6400 and the management of the NGO periodically prepared income and expenditure statements was also found to be to a low extent as shown by a mean score of 1.4267, the findings are as tabulated in the table overleaf.
Table 4.5: Extent of financial accountability

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>This NGO prepares regular financial reports for the benefit of stakeholders</td>
<td>4.5600</td>
<td>.79253</td>
</tr>
<tr>
<td>This NGO’s annual financial reports demonstrate financial accountability and stewardship</td>
<td>4.3200</td>
<td>.90285</td>
</tr>
<tr>
<td>The annual financial statements of this NGO show a clear picture of the resources entrusted to them and how they have been used during the year</td>
<td>3.1067</td>
<td>1.10983</td>
</tr>
<tr>
<td>The management of this NGO periodically prepares income and expenditure statements</td>
<td>1.4267</td>
<td>.85698</td>
</tr>
<tr>
<td>The management of this NGO produces balance sheets to show the financial position of the NGO</td>
<td>3.9733</td>
<td>1.11468</td>
</tr>
<tr>
<td>The management of this NGO regularly produces cash flow statements to show the organization’s projected cash inflows and outflows</td>
<td>3.1067</td>
<td>1.09758</td>
</tr>
<tr>
<td>In their reporting to stakeholders the management of this NGO supplements the financial reports with other non-financial reports</td>
<td>1.6400</td>
<td>1.19277</td>
</tr>
<tr>
<td>The staff of the NGO submit reports for business advances in a timely manner</td>
<td>2.0933</td>
<td>.93250</td>
</tr>
<tr>
<td>There have not been many queries about the financial reports prepared by this NGO</td>
<td>3.4133</td>
<td>.91671</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27.64</strong></td>
<td><strong>8.91643</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.071111</strong></td>
<td><strong>0.990714</strong></td>
</tr>
</tbody>
</table>

*Source: Survey Data (2013)*

### 4.3.4 Quality of Financial Reports

On how respondents could describe their organization in terms of quality of financial reports, respondents indicated that quality of financial reports was determined by the NGOs internal controls, sampling techniques used in accounting, audit evidence through internal and external
sources and emphasis employed by the organization on the truth and fairness of financial statements.

4.3.5 Ensuring of Quality Financial Reports

On statements relating to the quality of financial reports in the NGOs was found to be to a great extent as shown by a mean score of 3.91281 in that; the NGO’s financial reports were designed to incorporate key issues or changes derived from previous auditors’ reports was to a great extent as shown by a mean score of 4.7067, the NGO’s financial reports contained all relevant material information (about debtors, creditors, accruals etc.) was to a great extent as shown by a mean score of 4.4414, the information in the NGO’s financial reports was accurate was to a great extent as shown by a mean score of 4.4110, the NGO’s financial reports produced provide relevant information to the donors for decision making and planning was to a great extent as shown by a mean score of 4.3667, the officials concerned with funds of the NGO were trustworthy was to a great extent as shown by a mean score of 4.2811, there was sufficient reliable information on budget execution was to a great extent as shown by a mean score of 4.2537, the financial reports produced were clearly understood by the donors was to a great extent as shown by a mean score of 4.2401, the NGO prepared budget/expenditure analysis reports for use by management was to a great extent as shown by a mean score of 3.7634, the financial accountability in the NGO was rated as satisfactory was to a moderate extent as shown by a mean score of 3.1693 and the NGO’s financial reports were understandable was to a low extent as shown by a mean score of 1.4947.
Table 4.6: Ensuring of quality financial reports

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The information in the NGO’s financial reports is accurate.</td>
<td>4.4110</td>
<td>.91634</td>
</tr>
<tr>
<td>There is sufficient reliable information on budget execution</td>
<td>4.2537</td>
<td>.97317</td>
</tr>
<tr>
<td>The financial accountability in this NGO can be rated as satisfactory</td>
<td>3.1693</td>
<td>1.125</td>
</tr>
<tr>
<td>The officials concerned with funds of the NGO are trustworthy</td>
<td>4.2811</td>
<td>.92369</td>
</tr>
<tr>
<td>The financial reports produced are clearly understood by the donors</td>
<td>4.2401</td>
<td>.94241</td>
</tr>
<tr>
<td>The NGO’s financial reports are understandable.</td>
<td>1.4947</td>
<td>.72374</td>
</tr>
<tr>
<td>The NGO’s financial reports contain all relevant material information</td>
<td>4.4414</td>
<td>.75756</td>
</tr>
<tr>
<td>(about debtors, creditors, accruals etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO’s financial reports produced provide relevant information to</td>
<td>4.3667</td>
<td>.79974</td>
</tr>
<tr>
<td>the donors for decision making and planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO prepares budget/expenditure analysis reports for use by management</td>
<td>3.7634</td>
<td>1.0717</td>
</tr>
<tr>
<td>The NGO’s financial reports are designed to incorporate key issues or</td>
<td>4.7067</td>
<td>.63189</td>
</tr>
<tr>
<td>changes derived from previous auditors’ reports.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39.1281</strong></td>
<td><strong>8.86524</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.91281</strong></td>
<td><strong>0.886524</strong></td>
</tr>
</tbody>
</table>

*Source: Survey Data (2013)*

4.4 Financial Performance

4.4.1 Fraud on Performance

The study aimed at investigating the extent to which fraud affected the activities and performance of the NGOs, 46% who were the majority indicated that NGO performance was affected by fraud to a great extent, 32% cited that NGO performance was affected by fraud to a very great extent,
14% indicated that NGO performance was affected by fraud to a moderate extent, 5% indicated NGO performance was affected by fraud to no extent while 3% indicated that NGO performance was affected by fraud to a Little extent. The findings are tabulated in the table below.

**Table 4.7: Fraud on performance**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Great extent</td>
<td>17</td>
<td>46</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Little extent</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>No extent</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Survey Data (2013)*

**4.4.2 Use of Technology on Detecting Fraud**

**Figure 4.3: Use of technology on detecting fraud**

*Source: Survey Data (2013)*

The study aimed at investigating whether the NGOS have recent technology that can detect any fraud intended 65% of the respondents indicated yes while 35% indicated no as their response. This shows that NGOs have adopted new technology of fraud detection.
4.4.3 Measures of Detecting and Controlling Fraud

Figure 4.4: Measures of detecting and controlling fraud

\[\text{Source: Survey Data (2013)}\]

On whether the organizations had set measures of detecting and controlling fraud, 57% who were the majority cited yes they had set measures of detecting and controlling fraud while 43 cited no as their response.

In support of their answer those who cited yes indicated that this was a mandate given by the donors and have to be implemented and monitored regularly and hence had to be adopted. Those who respondents that they don’t have measure of controlling fraud cited that they did not see any importance since the finances are well accounted for and they have never received any complaints nor had issues with accounting to their financial use.

4.4.4 Financial Performance

On statement relating to financial performance of the NGOs was found to be to a great extent as shown by a mean score of 3.87555 in that; NGOs Officials and Administrators always looked forward to getting out much in relation to how much they put in was to a great extent as shown by a mean score of 4.2133, on all the NGOs Programmes/Projects the Officers always look out for the impact which was the output of all these functions either contributed to or influences NGOs performance as a whole was to a great extent as shown by a mean score of 4.2000, every Staff in the NGOs endeavored to optimally use resources on time in the attainment of the NGOs objectives was to a great extent as shown by a mean score of 4.1200, on whether the NGOs always ensured

31
that in every process there was best use of resources by getting it right first time or whether they had to duplicate was to a great extent as shown by a mean score of 3.9733, if there was high level of modernisation exhibited by the extent to which the NGOs had adopted management practices that was regarded as being innovative and forward looking was to a great extent as shown by a mean score of 3.6400 and on whether there was satisfaction on all the NGOs Programmes/Projects which was exhibited by how the service were perceived by both senior management and the internal staff on these projects was found to be to a great extent as shown by a mean score of 3.1067.

**Table 4.8: Financial performance**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs Officials and Administrators always look forward to getting out much in relation to how much they put in</td>
<td>4.2133</td>
<td>.82680</td>
</tr>
<tr>
<td>The NGOs always ensures that in every process there is best use of resources by getting it right first time or whether you have duplication</td>
<td>3.9733</td>
<td>.92959</td>
</tr>
<tr>
<td>Every Staff in the NGOs endeavours to optimally use resources on time in the attainment of the NGOs Objectives</td>
<td>4.1200</td>
<td>1.02614</td>
</tr>
<tr>
<td>On all the NGOs Programmes/Projects the Officers always look out for the impact which is the output of all these functions either contributes to or influences NGOs performance as a whole</td>
<td>4.2000</td>
<td>.97260</td>
</tr>
<tr>
<td>There is satisfaction on all the NGOs Programmes/Projects which is exhibited by how the service is perceived by both senior management and the internal staff on these projects</td>
<td>3.1067</td>
<td>1.09758</td>
</tr>
<tr>
<td>There is a high level of modernisation exhibited by the extent to which the NGOs have adopted management practices that would be regarded as being innovative and forward looking</td>
<td>3.6400</td>
<td>1.19277</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.2533</strong></td>
<td><strong>6.04548</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.87555</strong></td>
<td><strong>1.00758</strong></td>
</tr>
</tbody>
</table>

*Source: Survey Data (2013)*
4.5 Regression Analysis of the Findings

The researcher conducted a multiple linear regression analysis so as to determine the effects of financial accountability on the performance of non-governmental organizations in Kenya where financial accountability is the independent factor.

The regression equation was

\[ Y = \beta_0 + \beta_1X_1 + \epsilon \]

Whereby  
\( Y = \) Financial performance  
\( X_1 = \) Financial accountability

### Table 4.9 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Standard Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.843</td>
<td>0.742</td>
<td>0.724</td>
<td>0.4216</td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), financial accountability.

b) Dependent variable: financial performance.

The study used the R square. The R Square is called the coefficient of determination and tells us how the financial performance varied with financial accountability. The four independent variables that were studied explain 74.2% of financial performance in NGOs in Kenya as represented by R Squared (Coefficient of determinant). This therefore means that other factors not studied in this research contribute 25.8% of financial accountability on the performance of non-governmental organizations in Kenya.

### Table 4.10: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>11.72</td>
<td>9</td>
<td>1.302</td>
<td>44.231</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>3.432</td>
<td>28</td>
<td>0.066</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>15.152</td>
<td>37</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), financial accountability
b) Dependent Variable: financial performance

The study used ANOVA to establish the significance of the regression model from which an f-significance value of p less than 0.05 was established. The model is statistically significant in predicting how financial performance affects financial accountability in NGOs in Kenya. This shows that the regression model has a less than 0.05 likelihood (probability) of giving a wrong prediction. This therefore means that the regression model has a confidence level of above 95% hence high reliability of the results.

Table 4.11 Coefficients Results

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.116</td>
<td>.186</td>
<td>0.623</td>
<td>.535</td>
</tr>
<tr>
<td>financial accountability</td>
<td>0.577</td>
<td>.068</td>
<td>.559</td>
<td>8.478</td>
</tr>
</tbody>
</table>

a) Predictors: (Constant), financial accountability

b) Dependent Variable: financial performance

The established regression equation was

\[ Y = 0.116 + 0.577X_1 + \varepsilon \]

The regression equation above has established that holding the factor (financial accountability) constant, financial performance in NGOs in Kenya will be 0.116. The findings presented also shows that taking the independent variables at zero, a unit increase in financial accountability will lead to a 0.577 increase in the scores of financial performance in NGOs in Kenya. The study thus established a significant relationship between financial accountability and financial performance in NGOs in Kenya (p=0.00<0.05).
CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to establish the effects of financial accountability on the performance of non-governmental organizations in Kenya.

5.2 Summary of the Findings
The study found that majority of the respondents were finance officers, the findings show that the targeted departments were well presented in the study. Majority of the respondents were male. The findings show that gender parity was observed in the study. Majority of the respondents were between the age of 31 to 40 years, this shows that the respondents were mature and could answer to the study appropriately. Majority of the respondents had university degree; this shows that the respondents were well educated. Majority of the respondents had worked for a period between 6 to 10 years, a clear indication that all the respondents had stayed in their respective NGOs for a period of time hence they were conversant with how the NGOs operated financially.

The study also found that the NGOs applied financial standards in ensuring accountability of finances in the organizations. The financial manuals are reviewed and given to all directors and officers, trustees, employees and volunteers to confirm authenticity of the records. The accessing, inputting and changing of electronic data was maintained by the top management only’ preserving electronic records and ensuring data compatibility when systems change and creating an appropriate records retention policy were part of this process. The financial accountability in the NGOs was found to be to a moderate extent. The quality of financial reports in the NGOs was found to be to a great extent. On how respondents could describe their organization in terms of quality of financial reports, it was found that quality of financial reports was determined by the NGOs internal controls, sampling techniques used in accounting, audit evidence through internal and external sources and emphasis employed by the organization on the truth and fairness of financial statements.
The study further found that fraud affected the activities and performance of the NGOs to a great extent. It was found that NGOs have recent technology that can detect any fraud intended. Majority indicated that their organizations had set measures of detecting and controlling fraud. Those who had set measures of detecting and controlling fraud indicated that it was a mandate given by the donors and had to be implemented and monitored regularly and hence had to be adopted while those who did not have measure of controlling fraud cited that they did not see any importance since the finances are well accounted for and they have never received any complaints nor had issues with accounting to their financial use.

5.3 Conclusions
The study concludes that NGOs in Kenya have upheld financial accountability to a great extent however financial fraud still appears as a challenge and affects the quality of the financial documents. Therefore, as confirmed by the major findings of these study codes of conduct are one step in the journey of attaining value for money. They are, however, an essential step and one that can be delayed no longer if the NGOs are to achieve their strategic goals through their entities and agencies.

The study finally concludes that taking the independent variables at zero, a unit increase in financial accountability will lead increase in the scores of financial performance in NGOs in Kenya. The study thus established a significant relationship between financial accountability and financial performance in NGOs in Kenya.

5.4 Recommendations
In light of the research findings, the following recommendations were made:

The study recommends that the boards and officers of those NGOs should be responsible for managing and preserving the charitable assets that benefit all stakeholders. The study recommends the following guidelines to assist board members and others in carrying out their oversight of NGOs financials. Whatever their mission or size, all NGOs should have policies and procedures established so that; boards and officers understand their fiduciary responsibilities, financials are managed properly and the charitable purposes of the organization are carried out. A failure to meet these obligations is a breach of fiduciary duty and can result in financial and other liability for the
board of directors and the officers. Effective internal controls should be encouraged to protect an organization’s financials and assist in their proper management.

The study also recommends that it is the primary responsibility of directors and officers to ensure that the NGOs are accountable for their programs and finances to the contributors, members, the public and government regulators. Accountability requires that the organization comply with all applicable laws and ethical standards; adhere to the organization’s mission; create and adhere to conflict of interest, ethics, personnel and accounting policies; protect the rights of members; prepare and file its annual financial report with the NGOs Coordination Board and appropriate state regulatory authorities and make the report available to all members of the board and any member of the public who requests it. The development and maintenance of the organization’s internal controls will help to ensure accountability.

The study also recommends that there should be written job descriptions for directors, officers and trustees, employees, volunteers and consultants. The work of the organization will be more easily accomplished and problems will be avoided if all involved understand what is expected of them and the limits of their authority. A comprehensive description of the chief executive officer’s job should make clear his or her responsibilities in the day-to-day activities of the organization and set forth exactly what information is expected by the board and when it must be communicated.

The study finally recommends that appropriate training should be arranged for all involved. New directors, officers, employees and volunteers should be trained by those who are familiar with the organization and its operations including financial accountability. Directors, officers, trustees and others who serve a nonprofit organization should not have any personal or business interest that may conflict with their responsibilities to the organization. To avoid such conflicts, it is wise to have a “conflicts of interest policy” that clearly states the procedures to be followed if a board member’s personal or financial interests may be advanced by an action of the board. Crucial to the governance of a not-for-profit organization is the establishment of an audit committee. Typically, an audit committee is composed of members of the board of directors who are independent of any financial interest in the organization and at least one of whom has expertise in accounting.
5.6 Limitations of the Study

The investigative nature the study sparked misplaced suspicion. Respondents feared that the study intends to implicate individuals in a negative way. To this end, this suspicion offered resistance and lack of cooperation. The researcher however eliminated this paranoia by clarifying the objectives of the study.

There was reluctance of some respondents to complete the questionnaires promptly and others even failed to complete them at all. This thus limited the number of respondents involved in the study although the researcher geared up efforts and approaches to them explaining the potential benefits of the study.

5.5 Suggestions for Further Research

The study has explored the effects of financial accountability on the performance of non-governmental organizations in Kenya. In Kenya however there comprised of various other sectors which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the sectors in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the effects of financial accountability on the performance of firms in Kenya.

Further a study should also be carried out to investigate the effects of financial accountability on the performance of the public sector in Kenya.
REFERENCE
Cressey, H. (1973), Responsibility And Detection in Management Fraud, Reading and Cases in Auditing, Dame Publications, Houston, TX.


APPENDICES

Appendix I: Letter to Respondents

Dear respondent,

RE: LETTER OF INTRODUCTION

I am a postgraduate student undertaking a Master of Business Administration degree at the School of Business, University of Nairobi. As a partial fulfillment of the requirements for the award of the Master’s degree, I am currently conducting a survey on the effect of financial accountability on the performance of non-governmental organizations in Kenya. You have been selected to take part in the survey together with respondents from other NGOs.

The information provided will be treated with utmost confidence and shall be used for the academic research purpose. Should you require the findings of this research, I won’t hesitate to provide the information. Your participation is highly appreciated.

I am aware that filling the questionnaire is time consuming and I will greatly appreciate your assistance. Any additional information in form of suggestions and comments that you deem necessary to make my research findings more conclusive, relevant and reflective of the study area will be highly appreciated.

Thank you in advance.

Yours faithfully,

Paul Mbugua Mwaura
MBA Student

Copy to: Supervisor/ MBA Co-ordinator
Appendix II: Questionnaire

Questionnaire by (optional) ____________________ Date:

SECTION A: DEMOGRAPHICS/ RESPONDENT PROFILE

1. NGO Name (Optional) .................................................................

2. Position of Respondent ............................................................

3. Gender
   Male [   ]
   Female [   ]

4. Age
   25-30 years [   ]
   31-40 years [   ]
   41-50 years [   ]
   51-60 years [   ]
   Above 60 yrs [   ]

5. Please indicate your highest level of education attained
   Primary [   ]
   Secondary [   ]
   College Diploma [   ]
   University Degree [   ]
   Post Graduate [   ]

6. Number of years of experience in:
   NGO sector...................

SECTION B: FINANCIAL ACCOUNTABILITY

7. To what extent can you describe the financial standards applied in ensuring accountability of finances in your organization?
8. To what extent does your organization ensure accountability? Use a scale of 1-5 where 5 = Very great extent, 4 = Great extent, 3 = Moderate extent, 2 = Little extent and 1 = No extent.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>This NGO prepares regular financial reports for the benefit of stakeholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This NGO’s annual financial reports demonstrate financial accountability</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>and stewardship</td>
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<tr>
<td>The annual financial statements of this NGO show a clear picture of the</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>resources entrusted to them and how they have been used during the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The management of this NGO periodically prepares income and expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The management of this NGO produces balance sheets to show the financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>position of the NGO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The management of this NGO regularly produces cash flow statements to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>show the organization’s projected cash inflows and outflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In their reporting to stakeholders the management of this NGO supplements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the financial reports with other non-financial reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The staff of the NGO submit reports for business advances in a timely</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>manner</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There have not been many queries about the financial reports prepared by</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>this NGO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. According to your organization, how can you describe your quality of financial reports?

10. To what extent does your organization ensure accountability? Use a scale of 1-5 where 5 = Very great extent, 4 = Great extent, 3 = Moderate extent, 2 = Little extent and 1 = No extent.
<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The information in the NGO’s financial reports is accurate.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is sufficient reliable information on budget execution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The financial accountability in this NGO can be rated as satisfactory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The officials concerned with funds of the NGO are trustworthy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The financial reports produced are clearly understood by the donors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO’s financial reports are understandable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO’s financial reports contain all relevant material information (about debtors, creditors, accruals etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO’s financial reports produced provide relevant information to the donors for decision making and planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO prepares budget/expenditure analysis reports for use by management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGO’s financial reports are designed to incorporate key issues or changes derived from previous auditors’ reports.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION C: FINANCIAL PERFORMANCE**

11. To what extent does fraud affect the activities and performance of your organization?
   - Very great extent [ ]
   - Great extent [ ]
   - Moderate extent [ ]
   - Little extent [ ]
   - No extent [ ]

12. Do you have the recent technology that can detect any fraud intended?
   - Yes [ ]
   - No [ ]

13. Does your organization have set measures of detecting and controlling fraud?
   - Yes [ ]
   - No [ ]

b) Briefly explain why?
14. To what extent does your organization ensure the given in relation to financial performance. Use a scale of 1-5 where 5 Very great extent, 4 Great extent, 3 Moderate extent, 2 Little extent and 1 No extent

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs Officials and Administrators always look forward to getting out much in relation to how much they put in</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The NGOs always ensure that in every process there is best use of resources by getting it right first time or whether you have duplication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Every Staff in the NGOs endeavours to optimally use resources on time in the attainment of the NGOs Objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On all the NGOs Programmes/Projects the Officers always look out for the impact which is the output of all these functions either contributes to or influences NGOs performance as a whole</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is satisfaction on all the NGOs Programmes/Projects which is exhibited by how the service is perceived by both senior management and the internal staff on these projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is a high level of modernisation exhibited by the extent to which the NGOs have adopted management practices that would be regarded as being innovative and forward looking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU FOR YOUR PARTICIPATION
Appendix III: List of NGO’s

1. Accord.
3. AfriAfya.
4. AMREF.
5. Care International.
6. Catholic Relief Services.
7. Child Fund.
8. Christian Aid.
10. Concern Worldwide.
12. Feed The Hungry.
13. Food for The Hungry.
14. GOAL.
15. Israel for Africa.
17. Lutheran World Federation.
18. Medecins Sans Frontieres.
21. OXFAM.
22. Pact.
23. Path International.
24. Path Finder.
27. Trocaire International.
28. World Concern.
29. World Fund.
30. World Vision.